

Q&M Dental Group (QNM SP)

Searching for the bottom

HOLD

Share Price SGD 0.29
 12m Price Target SGD 0.31 (+7%)
 Previous Price Target SGD 0.37

1H23 profit below street; lowering EPS and TP

We just attended QNM's post-results briefing for an update. As a recap, the group's 1H23 net profit of SGD5.3m (-46% YoY) missed our and street expectations. While its core healthcare business remains resilient, this was offset by weakening MYR for its Malaysian operations, higher finance costs and less contribution from medical laboratory. To conserve cash, QNM reduced its interim DPS to 0.16 cent (1H23: 0.4 cent). We cut our FY23-25E EPS by 25-34% on slower dental topline growth, exacerbated by negative operating leverage. Retain HOLD with a lower TP of SGD0.31, based on 24x FY24E P/E (5-year average). We prefer Raffles Medical (RFMD SP, BUY, TP: SGD1.65) within the Singapore's healthcare sector.

Aims to improve efficiency to cut costs & wastage

1H23 revenue from the core healthcare business was down 0.5% YoY to SGD83.3m, mainly due to steady performance from Singapore dental clinics but offset by weaker sales from its medical clinics in Malaysia, as well as unfavourable FX impact of a strong SGD against MYR. Meanwhile, medical laboratory turnover fell 46.6% to SGD3.8m due to less PCR testing post re-opening. To mitigate rising staff/rental costs, the group plans to use central purchasing to cut wastage, and ensure more just-in-time ordering so that it can also reduce storage cost to improve efficiency.

Investing in data-centric AI treatments

To achieve higher productivity and organic growth, QNM aims to recruit more dentists, especially for its top-performing clinics. It is also trying to develop and optimise its digital AI guided clinical decision support system to provide more effective and suitable treatment plans for patients. While this may cater to the growing demand for high-value specialist dental healthcare services, we think gestation losses in this venture could continue to weigh on its earnings in the near term.

Developing new tests for other medical purposes

Post-pandemic, QNM's medical laboratory business, Acumen Diagnostic, will seek to develop a new range of tests and solutions to maximise its intellectual property and research capabilities for various medical purposes. These include tests for sepsis, identification of bacteria pathogens and their associated antimicrobial resistance in hospitalised pneumonia. To be conservative, we have yet to assume any potential income stream from this pipeline given the lack of clear visibility on commercialisation and/or timeline.

FYE Dec (SGD m)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	206	181	175	178	180
EBITDA	64	36	37	39	41
Core net profit	26	16	11	12	14
Core EPS (cts)	2.8	1.7	1.1	1.3	1.5
Core EPS growth (%)	12.1	(38.9)	(34.2)	14.5	12.9
Net DPS (cts)	4.0	1.0	0.5	0.8	1.0
Core P/E (x)	21.6	18.4	25.7	22.5	19.9
P/BV (x)	5.8	3.1	3.0	3.3	3.8
Net dividend yield (%)	6.6	3.2	1.7	2.6	3.4
ROAE (%)	27.8	11.6	11.4	14.1	17.8
ROAA (%)	9.6	6.0	4.0	4.8	5.5
EV/EBITDA (x)	9.5	9.6	8.3	8.0	7.7
Net gearing (%) (incl perps)	28.8	36.9	38.8	44.2	50.9
Consensus net profit	-	-	na	na	na
MIBG vs. Consensus (%)	-	-	na	na	na

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Company Description

Q&M Dental is one of the leading integrated dental healthcare groups in Asia, which owns the largest network of private dental outlets in Singapore

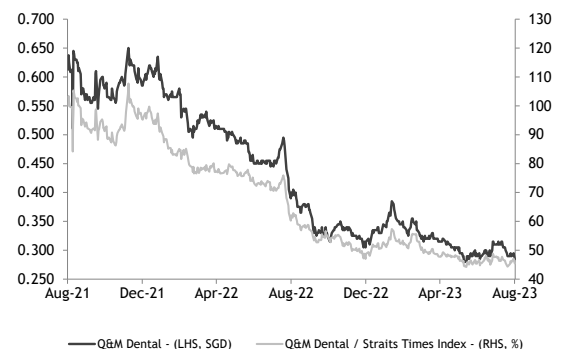
Statistics

52w high/low (SGD)	0.41/0.28
3m avg turnover (USDm)	0.1
Free float (%)	32.2
Issued shares (m)	966
Market capitalisation	SGD280.1M
	USD206M

Major shareholders:

Quan Min Holdings Pte Ltd.	52.0%
Heritas Capital Management Pte Ltd.	6.6%
Q & M Dental Group (Singapore) Ltd.	2.0%

Price Performance



	-1M	-3M	-12M
Absolute (%)	(6)	(5)	(26)
Relative to index (%)	(3)	(3)	(23)

Source: FactSet

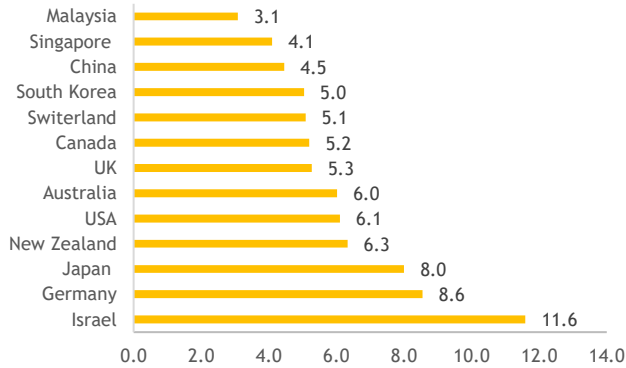
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Value Proposition

- Fills the gap between cheap-but-slow public dental services and premium services.
- Group model enables dentists to concentrate on core duties and leverage the firm’s strong branding to attract patients.
- Healthy balance sheet with low gearing provides ample headroom for more organic expansion and accretive M&A.

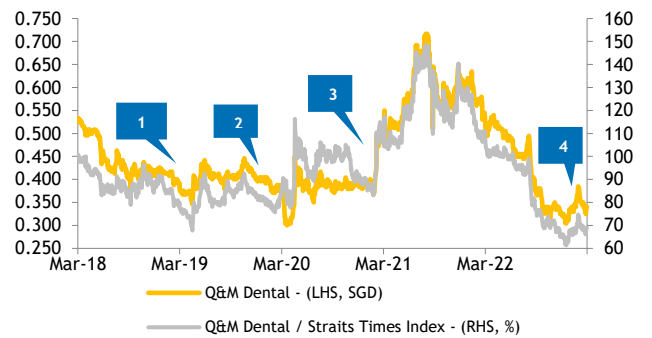
No. of dentists per 10,000 people



Source: Company, Maybank IBG Research

Price Drivers

Historical share price trend



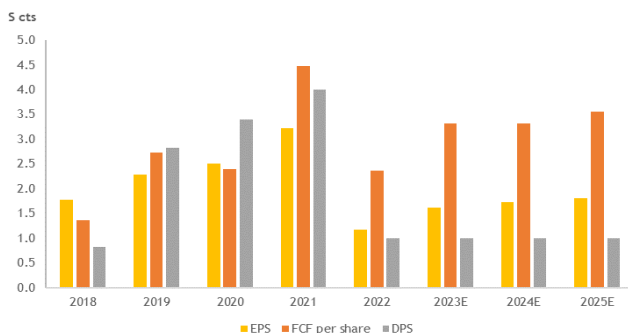
Source: Company, Maybank IBG Research

1. Proposed disposal of 36% stake in Aidite for SGD49m, giving rise to an estimated one-off gain of SGD19m. Net proceeds used for working capital and business expansion purposes.
2. Appoints Azion Healthcare as the exclusive distributor for cu-Corona® 3.0 in Mexico.
3. Its 51%-owned subsidiary, Acumen was granted a healthcare institution licence from MOH to conduct SARS-CoV-2 PCR testing services for COVID-19.
4. In Oct 22, the group won a tender worth at least SGD3.6m from MOH for the operation of a Joint Testing & Vaccination Centre.

Financial Metrics

- We expect overall revenue to decline due to lower PCR testing turnover, but partly offset by contribution from new outlets.
- However, higher capex is expected as the Group progressively opens more dental clinics in Singapore and Malaysia over the next few years.
- Free cash flow is likely to stay positive given its robust cash generating business model.

EPS, FCF per share and DPS



Source: Company, Maybank IBG Research

Swing Factors

Upside

- Better-than-expected sale of Covid-19 test kits and laboratory testing.
- Ability to add more dental clinics at strategic locations to entrench its dominant market position.
- Potential accretive M&A to accelerate growth given the group’s conservative balance sheet.

Downside

- Unable to attract new dentists or longer-than-expected gestation loss at new outlets.
- Lower patient volumes due to imposition of stricter measures amid another Covid-19 resurgence.
- Market share loss in its key markets due to keen competitive pressures from other players.

Risk Rating & Score ¹	na
Score Momentum ²	na
Last Updated	na
Controversy Score ³	na

Business Model & Industry Issues

- As a dental services provider, its first priority was the safety of all patients and employees amid the current COVID-19 pandemic and it had implemented tighter access and strict infection control protocols.
- In managing its supply chain, the Group ensures that its suppliers are continually assessed by management in accordance with the guiding principles established in its procurement policies.
- On the clinical front, it is working towards gradually obtaining “Eco-Shop” certifications at its clinics over the next few years. This is aimed at guiding and encouraging retailers to fit out their shops in an environmentally-sustainable manner, as well as to adopt eco-friendly habits and implement green practices in their daily operations.

Material E issues

- Q&M handles different types of clinical waste on a daily basis and it is important that its waste management process is conducted under a safe and sustainable manner.
- Licensed waste disposal vendors are engaged to collect and dispose sharps and biohazardous waste to ensure adherence to requirements stated in the Private Hospital and Medical Clinics Act by the Ministry of Health.
- The Group has yet to implement tracking mechanism to measure the quantity of waste disposed. However, the vendors it engaged have a proper system in place to collate data on the amount of waste collected to analyse.
- It will ensure all the defective ionising radiation irradiating apparatus such as x-ray machines are properly returned to the equipment vendor/distributor for proper disposal.
- There were no reported non-compliances with regulations relating to disposal of hazardous and non-hazardous waste.

Material S issues

- As at 31 Dec 2021, the group has a total of 713 employees under its Singapore and Malaysia operations. Of which, 77 are temporary employees and they are treated in accordance with salary practices in the region it operates in as part of the fair working environment practice.
- To ensure sustainability of its pool of dentists, the Group has launched its first private dentistry institution in Singapore, Q&M College of Dentistry which offers post-graduate diploma studies in clinical dentistry and Q&M Dental Group Scholarship Scheme in Oct '19.
- All dentists must meet the mandatory requirements under the Dental Registration Act and the Medical Registration Act respectively. They are also required to fulfil certain number of hours of Continuing Professional Education in order to proceed with their practicing certificates renewal.
- In FY21, there were 3 minor and non-fatal workplace accidents where clinic assistants suffered cuts and/or pricks by needles.

Key G metrics and issues

- Board consists six directors, of whom two are executive directors, one is a non-executive, non-independent chairman, and three are independent (50%). There is one female director.
- The nominating, audit and remuneration committees are chaired by independent directors.
- Founder and CEO Dr. Ng Chin Siau's deemed stake in company is approximately 54.46%.
- Two independent directors have served more than nine years from date of appointments. This will be taken into consideration when evaluating its board renewal.
- Diversified background of independent directors from legal and accounting with strong industry knowledge.
- Key management/ directors' compensation accounted for c.2%/1% of total employee compensation in 2021.
- Auditor is RSM Chio Lim LLP, which were appointed in 2016.
- It has a zero tolerance approach towards corrupt and dishonest practices or acts of bribery to obtain an unfair advantage and its employees are expected to report any concerns or unethical behaviour.
- All complaints or information would be forwarded to the Chairman of AC or CFO. There was no reported incident pertaining to whistle blowing during FY21.
- In Sep '20, the Group had discovered a case relating to the misappropriation of company's funds which involved two employees from its clinics in Johor. A police report was immediately lodged following the discovery of the incident and the investigation is still ongoing.
- In Jan '21, Q&M reached a full settlement for RM3.5m against Madam Chong Lee Lee and her husband, Dr Hong An Liang on claim that the duo transferred company funds into their personal accounts. They also had set up a competing outfit behind Q&M Johor clinics, using its resources without permission.

¹**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. ²**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. ³**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Quantitative parameters (Score: 30)						
	Particulars	Unit	2020	2021	2022	RFMD SP (2022)
E	Scope 1 GHG emissions	m tCO2e	N/A	N/A	N/A	N/A
	Scope 2 GHG emissions	m tCO2e	N/A	N/A	N/A	N/A
	Total	m tCO2e	N/A	N/A	N/A	N/A
	Scope 3 GHG emissions	m tCO2e	N/A	N/A	N/A	N/A
	Total	m tCO2e	N/A	N/A	N/A	N/A
	GHG intensity (Scope 1 and 2)	tCO2e/t	N/A	N/A	N/A	N/A
	Energy intensity Ratio	KWh/m ²	190.3	161.1	154.2	N/A
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Wastewater discharge (chemical O2 demand)	tonnes	N/A	N/A	N/A	N/A
	Hazardous waste 3R rate	%	N/A	N/A	N/A	0.014
	Air emissions intensity	ton/kT	N/A	N/A	N/A	N/A
	NPE (New Plastic Economy) investments	SGD m	N/A	N/A	N/A	N/A
Cases of environmental non-compliance	number	0	0	0	0	
S	% of women in workforce	%	78%	84%	79%	N/A
	% of women in management roles	%	29%	33%	54%	27%
	Lost time injury frequency (LTIF) rate	number	0.0	0.0	0.0	0.0
	Employee volunteerism	hours	N/A	N/A	N/A	7176
G	ED/CEO salary as % of reported net profit	%	3.6%	10.8%	10.4%	2.6%
	Board salary as % of reported net profit	%	3.2%	2.6%	6.0%	4.0%
	Independent directors on the Board	%	37.5%	37.5%	44.4%	45%
	Female directors on the Board	%	12.5%	12.5%	11.1%	18%

Qualitative Parameters (Score: 68)	
a) Is there an ESG policy in place and is there is a standalone ESG committee or is it part of the risk committee?	<i>Yes. Led by the CEO and COO, the committee oversees the implementation of the group's overall sustainability strategy.</i>
b) Is the senior management salary linked to fulfilling ESG targets?	<i>No</i>
c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?	<i>Yes</i>
e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?	<i>No</i>
f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?	<i>1) Installation of thimbles in taps; 2) all new clinics were installed with refrigerated areas to store clinical waste prior to disposal; and 3) engaged licensed-waste-disposal suppliers to collect and dispose of sharp and biohazardous waste.</i>
g) Does carbon offset form part of the net zero/carbon neutrality target of the company?	<i>Yes</i>

Target (Score: 80)		
Particulars	Target	Achieved
Reduce average water consumption per clinic	N/A	100%
Reduce electricity consumption per clinic	N/A	100%
Minimise clinical waste per clinic	N/A	100%
Maintain zero-reported data privacy incidents	0	100%
Increase average training hours for staff	3.0	2.9
Impact		
NA		
Overall score: 52		
As per our ESG matrix, Q&M Dental (QNM SP) has an overall score of 52.		

ESG score	Weights	Scores	Final Score
Quantitative	50%	30	15
Qualitative	25%	68	17
Target	25%	80	20
Total			52

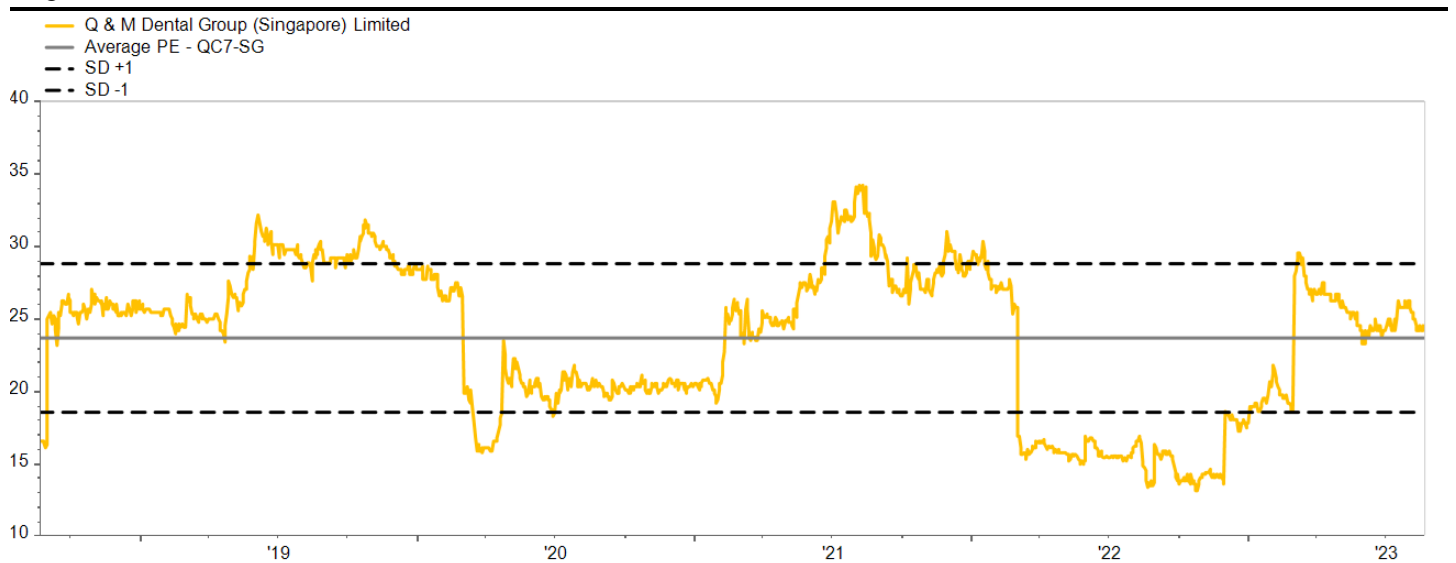
As per our ESG assessment, Q&M has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. Its overall ESG score is 52, which makes its ESG rating above average in our view (average ESG rating = 50).

Fig 1: Earnings revisions

(SGD m)	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	175.1	183.2	-4.4%	177.7	186.8	-4.9%	180.4	190.5	-5.3%
EBITDA	37.3	42.7	-12.6%	39.0	44.3	-11.9%	40.8	45.8	-10.9%
EBIT	19.5	24.7	-21.0%	21.0	25.8	-18.4%	22.6	26.8	-15.6%
Core net profit	10.7	16.2	-33.9%	12.2	17.3	-29.4%	13.8	18.4	-25.1%
DPS (cts)	0.5	1.0	-50.0%	0.8	1.0	-25.0%	1.0	1.0	0.0%
			Chg (ppt)			Chg (ppt)			Chg (ppt)
EBIT margin	11.1%	13.5%	-2.3%	11.8%	13.8%	-2.0%	12.5%	14.1%	-1.5%
Net margin	6.1%	8.8%	-2.7%	6.9%	9.3%	-2.4%	7.6%	9.7%	-2.0%

Source: Company, Maybank IBG Research

Fig 2: Forward PE valuation band



Source: Factset

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Metrics					
P/E (reported) (x)	17.4	37.6	25.7	22.5	19.9
Core P/E (x)	21.6	18.4	25.7	22.5	19.9
P/BV (x)	5.8	3.1	3.0	3.3	3.8
P/NTA (x)	13.3	7.3	8.9	12.7	23.3
Net dividend yield (%)	6.6	3.2	1.7	2.6	3.4
FCF yield (%)	7.4	7.7	10.7	10.3	11.3
EV/EBITDA (x)	9.5	9.6	8.3	8.0	7.7
EV/EBIT (x)	12.1	18.3	15.9	14.8	13.9
INCOME STATEMENT (SGD m)					
Revenue	205.6	181.2	175.1	177.7	180.4
EBITDA	63.7	35.8	37.3	39.0	40.8
Depreciation	(13.6)	(17.1)	(17.8)	(18.0)	(18.2)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	50.1	18.7	19.5	21.0	22.6
Net interest income / (exp)	(3.0)	(3.9)	(5.5)	(5.4)	(5.3)
Associates & JV	(0.5)	(0.5)	(0.4)	(0.3)	(0.2)
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	46.7	14.3	13.6	15.3	17.1
Income tax	(7.3)	(2.4)	(2.2)	(2.5)	(2.7)
Minorities	(8.9)	(0.5)	(0.8)	(0.7)	(0.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	30.5	11.3	10.7	12.2	13.8
Core net profit	26.5	16.2	10.7	12.2	13.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	47.6	39.7	41.7	40.3	39.3
Accounts receivable	27.8	27.0	24.5	24.9	25.2
Inventory	15.9	11.1	12.3	13.3	13.5
Reinsurance assets	0.0	0.0	0.0	1.0	2.0
Property, Plant & Equip (net)	84.3	89.5	80.7	71.7	62.5
Intangible assets	60.2	61.2	61.2	61.2	61.2
Investment in Associates & JVs	27.0	25.2	25.2	25.2	25.2
Other assets	13.3	13.8	13.8	14.8	15.8
Total assets	276.2	267.4	259.3	252.4	244.7
ST interest bearing debt	1.9	1.9	1.9	1.9	1.9
Accounts payable	26.2	19.4	21.6	21.8	21.9
Insurance contract liabilities	0.0	0.0	0.0	1.0	2.0
LT interest bearing debt	75.5	75.5	75.5	75.5	75.5
Other liabilities	69.0	68.0	68.0	68.0	68.0
Total Liabilities	172.9	165.2	167.4	168.5	169.7
Shareholders Equity	97.8	96.5	91.2	82.2	72.4
Minority Interest	5.4	5.8	0.8	0.7	0.6
Total shareholder equity	103.2	102.2	92.0	82.9	73.0
Perpetual securities	0.0	0.0	0.0	1.0	2.0
Total liabilities and equity	276.2	267.4	259.3	252.4	244.7
CASH FLOW (SGD m)					
Pretax profit	46.7	14.3	13.6	15.3	17.1
Depreciation & amortisation	13.6	17.1	17.8	18.0	18.2
Adj net interest (income)/exp	3.0	3.9	5.5	5.4	5.3
Change in working capital	(5.6)	4.2	1.6	(1.1)	(0.3)
Cash taxes paid	(3.1)	(6.2)	(1.2)	(1.2)	(1.2)
Other operating cash flow	(3.7)	0.4	0.9	0.8	0.7
Cash flow from operations	50.8	33.6	38.3	37.3	39.9
Capex	(8.6)	(10.8)	(9.0)	(9.0)	(9.0)
Free cash flow	42.3	22.8	29.3	28.3	30.9
Dividends paid	(48.8)	(18.2)	(4.7)	(7.1)	(9.5)
Equity raised / (purchased)	(3.1)	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	1.0	2.0
Change in Debt	8.5	(0.9)	(10.0)	(10.0)	(10.0)
Perpetual securities distribution	0.0	0.0	0.0	1.0	2.0
Other invest/financing cash flow	(17.1)	(11.6)	(12.5)	(9.5)	(6.5)
Effect of exch rate changes	0.0	0.0	0.0	1.0	2.0
Net cash flow	(18.1)	(7.9)	2.0	4.6	10.9

FYE 31 Dec	FY21A	FY22A	FY23E	FY24E	FY25E
Key Ratios					
Growth ratios (%)					
Revenue growth	49.4	(11.9)	(3.4)	1.5	1.5
EBITDA growth	69.8	(43.9)	4.4	4.6	4.5
EBIT growth	92.9	(62.7)	4.4	7.8	7.4
Pretax growth	108.5	(69.4)	(4.8)	12.7	11.5
Reported net profit growth	54.7	(62.9)	(5.7)	14.5	12.9
Core net profit growth	34.4	(38.8)	(34.2)	14.5	12.9
Profitability ratios (%)					
EBITDA margin	31.0	19.7	21.3	22.0	22.6
EBIT margin	24.4	10.3	11.1	11.8	12.5
Pretax profit margin	22.7	7.9	7.8	8.6	9.5
Payout ratio	123.9	83.7	44.4	58.1	68.6
DuPont analysis					
Net profit margin (%)	14.8	6.2	6.1	6.9	7.6
Revenue/Assets (x)	0.7	0.7	0.7	0.7	0.7
Assets/Equity (x)	2.8	2.8	2.8	3.1	3.4
ROAE (%)	27.8	11.6	11.4	14.1	17.8
ROAA (%)	9.6	6.0	4.0	4.8	5.5
Liquidity & Efficiency					
Cash conversion cycle	(3.4)	(25.0)	(25.2)	(27.7)	(22.8)
Days receivable outstanding	40.3	54.4	52.9	50.0	50.0
Days inventory outstanding	129.5	115.0	103.6	112.0	116.1
Days payables outstanding	173.2	194.5	181.8	189.8	188.9
Dividend cover (x)	0.8	1.2	2.3	1.7	1.5
Current ratio (x)	2.1	2.5	2.4	2.3	2.3
Leverage & Expense Analysis					
Asset/Liability (x)	1.6	1.6	1.5	1.5	1.4
Net gearing (%) (incl perps)	28.8	36.9	38.8	44.2	50.9
Net gearing (%) (excl. perps)	28.8	36.9	38.8	44.7	52.3
Net interest cover (x)	16.7	4.8	3.5	3.9	4.2
Debt/EBITDA (x)	1.2	2.2	2.1	2.0	1.9
Capex/revenue (%)	4.2	5.9	5.1	5.1	5.0
Net debt/ (net cash)	29.8	37.7	35.7	37.0	38.1

Source: Company; Maybank IBG Research

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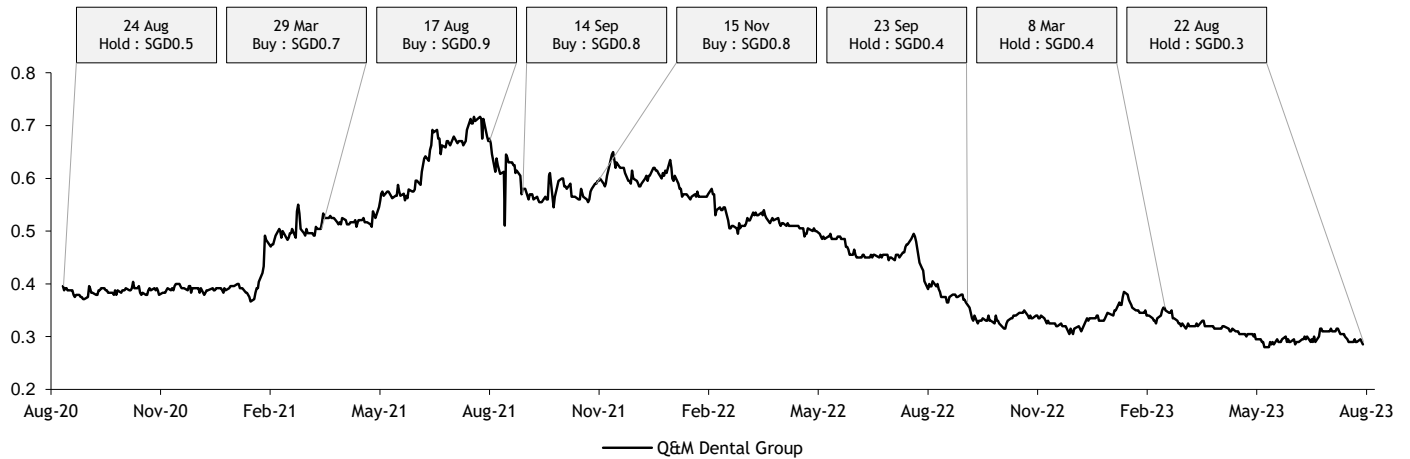
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